

# Revenue Review

Tennessee Department of Revenue

www.Tennessee.gov/revenue

REVENUE ...  
*Working For You*



March 2008

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## Did You Know...

Tax collections  
and statistics are  
a click away on  
Revenue's Web  
site? Visit  
[www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).

## Contact Us:

Tennessee Department  
of Revenue  
Attn: Taxpayer Services  
500 Deaderick Street  
Nashville, TN 37242  
(615) 253-0600  
Statewide toll-free:  
(800) 342-1003

## Meet the Tax Deadline by Filing Online This Spring

This spring, file your taxes online with Revenue. Individual income and franchise and excise taxes are due April 15, and professional privilege taxes are due on June 1. Customers can ease the process of filing returns by paying online by credit card or electronic funds transfer. MasterCard, American Express and Discover Card are accepted and will be charged an associated 2.49 percent processing fee.

Tennessee taxpayers are increasingly taking advantage of the convenience of filing taxes online with the Tennessee Department of Revenue. In October 2007, Revenue exceeded 1 million e-file transactions and surpassed \$8 billion in online collections.

"I encourage taxpayers that currently file a paper return to try e-filing. E-filing offers increased accuracy, which reduces the number of errors by the taxpayer and the department, thereby reducing the cost of the filing process for both parties," Farr said. "We expect the volume of transactions to continue to increase as more taxpayers take advantage of e-filing and join a growing base of satisfied customers."

Since the first e-filing option, individual income tax, was launched in March 2002, online filing has grown dramatically, reducing postage and processing costs to the state and providing a convenient option for taxpayers and practitioners. During fiscal year 2001-2002, the first year of service, over 1,000 filings totaling nearly \$257,557 were made online. During fiscal year 2006-2007, the number of filings increased to 422,000, totaling over \$3 billion.

The Department of Revenue continues to add to the suite of e-file options to help taxpayers and tax practitioners save time and eliminate errors. This spring, payment by credit card will be added to minimum franchise and excise tax returns and estimated payments and extensions in time for the April deadline. Popular payment warehousing was added last year to the online sales tax application, which allows taxpayers to complete a tax return in advance and schedule the payment to be processed on the due date.

Electronic filing of the sales and use tax, consumer use tax, individual income tax, professional privilege tax and minimum franchise and excise tax returns and estimated payments and extensions is available via Revenue's Web site, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).

Bill payments and many business tax registration activities also can be completed online.

In order to assist taxpayers with compliance to electronic filing, the Department of Revenue provides computer access in its offices in Chattanooga, Knoxville, Jackson, Johnson City, Memphis and Nashville. The department also offers an electronic commerce hot line to assist taxpayers and tax practitioners at (866) 368-6374. Nashville-area and out-of-state callers should dial (615) 253-0704. All taxpayer data, whether paper or electronic, filed with the Department of Revenue is confidential data protected under Tennessee law.

## Special Spring Sales Tax Holiday is Approaching



www.tntaxholiday.com

Get ready – a special, one-time Sales Tax Holiday is scheduled for this spring. Tennesseans have saved millions since the inaugural holiday in August 2006 by taking advantage of back-to-school tax exemptions. The list of exempt materials remains the same: clothing with a price of \$100 or less per item, school and school art supplies with a price of \$100 or less per item, and computers with a price of \$1,500 per bundled package.

The original holiday was set during last legislative session for March 21-23, but legislation has been proposed to move the date. Please check the state's Sales Tax Holiday Web site, [www.tntaxholiday.com](http://www.tntaxholiday.com), for updates.

Retailers should continue to report exempt sales on Schedule A, Line J of the sales and use tax return. The state reimburses local governments for lost sales tax revenue to ensure that local governments are not negatively impacted by the sales tax holidays. Please remember to enter information accurately to guarantee that local governments are reimbursed correctly.

Please contact the Revenue Call Center with any questions about the change in sales and use tax reporting. Tennessee residents outside the Nashville calling area may call toll-free

at (800) 342-1003. Nashville or out-of-state, please call (615) 253-0600.

Comprehensive lists of exempt items, frequently asked questions and other information about Tennessee's sales tax holidays can be found at [www.tntaxholiday.com](http://www.tntaxholiday.com). Revenue staff is also available to answer questions about the holiday at (800) 342-1003 or [Salestax.holiday@state.tn.us](mailto:Salestax.holiday@state.tn.us).

## Savable Fill-In Forms Now Online

In January, the department began to roll out a new version of some of its fill-in forms that allow users to fill in and save them with the free Adobe Acrobat Reader. The first forms that were converted to savable fill-ins were the Inheritance Tax Short Form and the Gift Tax Return. Other savable forms now include the Inheritance Long Form, Power of Attorney and Application for Exemption for Franchise and Excise Taxes. Future plans include expanding this option to more online forms in 2008. Adobe Acrobat Reader is required to view and save the forms, and is available for download on Revenue's Web site.

Online Filing Questions? Contact Revenue's Electronic Commerce Center toll-free at (866) 368-6374. Nashville-area and out-of-state: (615) 253-0704

## Income Tax Filing Pointers

The April 15 deadline to file individual income tax is approaching, and the Department of Revenue has created a list of pointers in preparation for filers. Whether you file online or on paper, these tips may make filing an individual income tax return easier this year.

Two surprisingly common errors made by taxpayers filing individual income tax returns are not taking credit for an estimated payment and paying a penalty on a return with a valid extension. Payments on extensions are not required. However, interest will accrue on any tax payment received after April 15. Also, an estimated payment may be made by filing the INC 251 form. Remember to claim any estimated payment when the return is filed later. Any estimated payments made should be listed on Line 5 to avoid overpayment. Complete all taxpayer information; if it is a joint account, please include information for both taxpayers.

The department also often sees dividends from bank holding companies reported as nontaxable. Bank holding companies do not fall under the exemption for entities chartered as banks. Thus, dividends from bank holding companies are taxable.

Taxpayers also commonly do not treat dividends paid on shares of stock that are classified as "Non-taxable distributions" and "Return of Capital distributions" as taxable. Dividends paid on shares of stock that fall under these classifications for federal purposes are taxable for

Tennessee purposes. Federal law has no bearing on the classification of payments for Tennessee.

Additional income tax mistakes that taxpayers should avoid include:

### Account Number

Do not use a previously assigned account number after there have been changes in filing status. In the event of status changes (marriage, divorce, death, etc.), the account number field should be left blank. A new account number will be assigned based on the Social Security Number or Federal Employer Identification Number of the new entity.

### Amended Returns

An amended return must include all income for the period, not just the changed items. Remember to claim the amount paid with the original return on Line 5. Also, don't forget to show the amount of overpayment on Line 9.

### Over 65 Exemption

In order to qualify for the over 65 exemption, the total annual income from any and all sources must be below the exemption limits. This means all income, including social security, without deduction for losses. This does not mean federal adjusted gross income.

If the box for the Affidavit for Exemption for taxpayers over the age of 65 is marked, all interest and dividend information should be entered on Schedule B. Do not enter figures on Schedule A or on Line 1 of the return.

### Filing Status Boxes

Some taxpayers erroneously mark the box to the right of the status description rather than the box on the left. Make sure to mark the status box to the left of the description.

### Line 2 Exemption

No amount other than \$1,250 or \$2,500 should be entered on this line. Other income qualifying for exemption (i.e. blindness, non-residency) should be entered on Schedule B.

### Amount Remitted

Submit payment for amount shown on Line 8 of the return. Some taxpayers will, in error, submit payment for the amount shown on page 2 above the signature, which is total nontaxable income, not tax due.

### Duplicate Payments

Please be sure to submit payment only once.

### Blindness Exemption

If filing a return for a blind person, all income accrued or credited to the blind person should be reported on Schedule B. If taxable income is received from an account held jointly with a sighted spouse, the one-half belonging to the blind person is entered on Schedule B and the one-half belonging to the sighted person is entered on Schedule A.

### Signature

Don't forget the last, but very important step: Sign the return!

To learn more about individual income tax or file online, please visit the department's Web site at [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue).



## **Southeast Community Capital Secures More Than \$5 Million for Rural Opportunity Fund**

Since the Rural Opportunity Fund was announced in September, Southeast Community Capital (SCC) has raised more than half of the \$10 million goal set to generate loans for businesses lacking traditional financing in rural areas across the state. Sixteen community banks have already committed funds.

"Rural Opportunity Fund dollars will be used to aggressively loan money to businesses in rural areas of our state to help small businesses grow and create more jobs for Tennesseans," said Governor Phil Bredesen. "I appreciate the partnership of Southeast Community Capital and the Tennessee Bankers Association in working with us to create these opportunities for the rural business owners of Tennessee."

In order to assist financial institutions interested in investing in the Rural Opportunity Fund, the Department of Revenue has added a new form to its Web site that allows participating financial institutions to receive a tax credit annually over 10 years towards their Tennessee franchise and excise taxes.

"This fund is a vital key in growing Tennessee's rural economy, and I am excited that Southeast Community Capital has managed to get the resources for small businesses so promptly," said Revenue Commissioner Reagan Farr. "Tennessee's small and independent businesses deserve the chance to prosper."

The Rural Opportunity Fund is a public-private partnership between the State of Tennessee, the Tennessee Bankers Association (TBA) and SCC. The fund will provide loans to rural businesses that do not have access to traditional financing. Through this \$10 million loan fund, SCC will provide financing to help companies grow, create new jobs for Tennesseans, provide better wages and help communities economies expand.

Tennessee community banks currently participating in the funds include FirstBank (Lexington), Pinnacle Bank (Nashville), Tennessee Commerce Bank (Franklin), GreenBank (Greeneville), Community South (Parsons), Commercial Bank and Trust (Paris), Citizens Bank (Elizabethton), Reliant Bank (Franklin), Citizens Bank (Carthage), Decatur County Bank (Decaturville), Wayne County Bank (Waynesboro), Citizens National Bank (Athens), People's Bank (Clifton), Farmers and Merchants (Trezevant), F&M Bank (Clarksville) and Community Bank and Trust (Ashland City).

Over the next ten years, the Rural Opportunity Fund is expected to generate over \$25 million in loans, financing more than 350 small businesses and minority- and women-owned businesses, and creating more than 600 new jobs.

SCC is a not-for-profit Community Development Financial Institution that provides loans to small businesses lacking access to traditional financing. Interested business owners or those thinking about starting a new business, please visit [www.sccapital.org](http://www.sccapital.org) or call Clint Gwin or Hank Helton at (615) 254-6113.

*Revenue Review* is now published three times annually. To ensure you receive this and other news from the department promptly, please subscribe to Revenue's listserv by visiting [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue) and click on "Contact Us."

## **Working with Tax Enforcement**

On occasion, a taxpayer might receive a notice from the department's Tax Enforcement Division for collection of a tax liability. Whether it's already been paid, has been discussed with someone in the department or the request is unclear, please follow the directions in the notice. These notices are sent when a tax liability is past due, and the responsibility for the collection is referred to the Tax Enforcement Division. Tax Enforcement's main duty is to collect any taxes due the state that have not been remitted on time. The division celebrated all-time high collections of \$158,041,594 during fiscal year 2007.

Since penalty and interest on tax liabilities begin to accrue on the original due date, it is in the best interest of a taxpayer to file returns and payments on time. However, should this deadline pass without a return filed or payment made, the department will begin the collection process by first notifying the taxpayer by letter that a liability has not been paid by the due date.

If there is no response to the letter within 25 days, the case is sent to the call center where the taxpayer may be contacted over a period of 20 days. If no payment has been received or no attempts to schedule a payment have been made within 20 days, the case is forwarded to a tax enforcement officer for collection. The enforcement officer sends a written final demand for payment and the taxpayer is given 10 days to respond. After 90 days of the assessment date, or first notice, further actions may be taken to collect the tax liability, including levying on assets and filing costly liens, which can affect a taxpayer's credit for an extended time.

Generally, a taxpayer is given every opportunity to pay a liability or arrange a payment schedule. Should you receive a notice from Tax Enforcement, please do not throw it away or disregard it believing the liability has been paid. Make sure to contact the tax enforcement officer listed in the letter as quickly as possible to shorten the time it takes to resolve the issue and avoid delays that can lead to collection activity. The department is always willing to work with taxpayers to discuss any confusion, answer questions and resolve the tax liability.

### **Online Sales Tax Filing Statistics**

Month	Number of Returns	Total of Amount Collected
November 2007	30,692	\$355,621,889
December 2007	33,174	\$342,516,633
January 2008	40,443	\$451,063,272

## Common Mistakes: Franchise and Excise Filing

*The focus of this "Common Mistakes" series continues to be Franchise and Excise taxes, continued from the December 2007 issue.*

### Extensions

Taxpayers have options for filing an extension request. An extension of time to file the franchise and excise tax return will be granted for six months if the taxpayer has paid at least 90 percent of the tax liability for the tax year by the statutory due date of the return. An extension request can be made using one of the following options:

- If the 90 percent payment requirement has been met by the statutory due date of the tax return, the taxpayer is not required to file the state extension form by the due date; however, the taxpayer must file the state form (FAE 173) or a copy of the federal extension form with the tax return. The return must still be filed by the extended due date.
- If a payment is due and the taxpayer does not file its federal return on a consolidated basis, then the taxpayer may use either the state extension form or a copy of its federal extension to file with the payment. The form must be filed with the extension payment on or before the original due date of the return.
- If a payment is required and the taxpayer files its federal return as part of a consolidated group, the taxpayer must use a state extension form for each member of the consolidated group. Each form must be filed with the appropriate extension payment on or before the original due date of the return.

### Apportionment

The department commonly sees taxpayers not correctly calculating the sales apportionment ratio. Always remember that the sales apportionment ratio is on gross receipts, not just sales.

### Net Operating Losses

Taxpayers often make errors in calculating their net operating losses and tax credit carryovers. One common error is simply not completing all appropriate schedules. Taxpayers must complete all appropriate schedules on the return even if no excise tax is due and/or a loss or credit carryover is not used. Data must be entered on the department's system so that the carryover is available in subsequent years. Important schedules on the franchise and excise tax return are J, K, U, T, X and V.

### Franchise Tax Proration

Taxpayers also commonly make errors in trying to prorate their franchise tax liability. Proration of franchise tax is allowed only on an initial return or when there is a change of accounting period.

Visit [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue) for tax collections and statistics.

## Save the Date: Upcoming New Business Workshops (NBW) Across the State

### May

**May 8** – NBW, Johnson City, 8 a.m. to 11:45 a.m.

**May 8** – NBW, Memphis, 8:30 a.m. to noon

**May 14** – NBW, Chattanooga, 8 a.m. to 1:15 p.m.

**May 14** – NBW, Knoxville, 8 a.m. to 12:30 p.m.

**May 20** – NBW, Nashville, 8:30 a.m. to 1:30 p.m.

### July

**July 10** – NBW, Johnson City, 8 a.m. to 11:45 a.m.

**July 10** – NBW, Memphis, 8:30 a.m. to noon

**July 16** – NBW, Chattanooga, 8 a.m. to 1:15 p.m.

**July 16** – NBW, Knoxville, 8 a.m. to 12:30 p.m.

**July 22** – NBW, Nashville, 8:30 a.m. to 1:30 p.m.

### September

**Sept. 10** – NBW, Chattanooga, 8 a.m. to 1:15 p.m.

**Sept. 11** – NBW, Johnson City, 8 a.m. to 11:45 a.m.

**Sept. 11** – NBW, Memphis, 8:30 a.m. to noon

**Sept. 17** – NBW, Knoxville, 8 a.m. to 12:30 p.m.

**Sept. 23** – NBW, Nashville, 8:30 a.m. to 1:30 p.m.

## We Want Your Feedback

We work hard each day to serve our customers. Your feedback on our customer service and our Web site helps us provide outstanding service and meaningful, useful information on the Internet. To let us know how we're doing and how we can better meet your needs, visit our Web site, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue), and click on "Send us your feedback." Separate surveys related to our service and our Web site are available for online completion.

## Contact Us

- Taxpayer Services hot line: Statewide toll-free (800) 342-1003; Nashville-area and out-of-state callers, dial (615) 253-0600
- Vehicle Services hot line: Statewide toll-free (888) 871-3171; Nashville-area and out-of-state callers, dial (615) 741-3101
- Online tax help by e-mail: [TN.Revenue@state.tn.us](mailto:TN.Revenue@state.tn.us)
- Streamlined Sales Tax hot line: Statewide toll-free (877) 250-2299; Nashville-area and out-of-state callers, dial (615) 253-0752
- Streamlined Sales Tax online assistance by e-mail: [Streamlined.Salestax.QandA@state.tn.us](mailto:Streamlined.Salestax.QandA@state.tn.us)
- Tax practitioner hot line: Statewide toll-free (800) 387-8395; Nashville-area and out-of-state callers, dial (615) 253-0700
- Local government hot line: (866) 562-2549
- E-mail updates: Visit our Web site, [www.Tennessee.gov/revenue](http://www.Tennessee.gov/revenue), to subscribe
- Electronic commerce hot line: Statewide toll-free (866) 368-6374; Nashville-area and out-of-state callers, dial (615) 253-0704
- Speakers bureau: (615) 532-4975
- Tax fraud hot line: Report tax fraud by calling (800) FRAUDTX (372-8389)



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